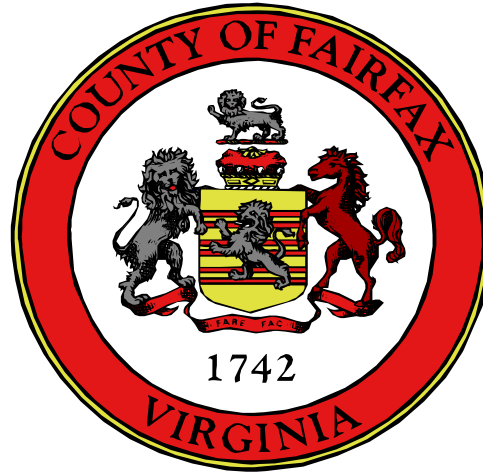


INTERNAL AUDIT REPORT

Audit of the FAMIS Reports Reconciliation



Fairfax County Internal Audit Office

**FAIRFAX COUNTY, VIRGINIA
INTERNAL AUDIT OFFICE
M E M O R A N D U M**

TO: Anthony H. Griffin
County Executive

DATE: July 31, 2000

FROM: Ronald A. Coen, Director
Internal Audit Office

SUBJECT: Report on the *“Audit of the FAMIS Reports Reconciliation”*

This is a report on the *“Audit of the FAMIS Reports Reconciliation”*. It was performed as part of our FY2000 Annual Audit Plan.

The findings and recommendations of this audit were discussed with the Department of Finance and Department of Housing and Community Development. We have reached agreement on all of the recommendations and I will follow up periodically until implementation is complete. Their responses are incorporated into the report and the full response is attached at the end of the report. After your review and approval, we will release the report to the Board of Supervisors.

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Introduction

The Department of Finance, Accounting and Reporting Section is responsible for the integrity of the County's accounting records. The Accounting and Reporting Section provides technical accounting oversight and guidance to County departments. The Accounting and Reporting section also gives assistance to departments in the resolution of reconciling items. For the period, July 1, 1999 - December 31, 1999, FAMIS recorded revenues over \$2.3 billion and processed more than 1.1 million transactions.

County departments are responsible for performing monthly reconciliations at the transaction level. Further, they are to report the results of reconciliations to the Department of Finance each month. These reconciliations are to be carried out in accordance with a departmental reconciliation plan, which is approved by the Department of Finance.

Purpose and Scope

We reviewed controls over the FAMIS reports reconciliation process in our FY 2000 Audit Plan because, each Fairfax County department is responsible for ensuring the validity and accuracy of thousands of financial transactions recorded in FAMIS. We determined if departments are properly reconciling to FAMIS reports. We also determined if the Department of Finance is completing its oversight responsibilities. We examined compliance with Accounting Technical Bulletin 020 Reconciliation of Financial Transactions for Operating Agencies and subsequent additions. This audit was conducted in accordance with generally accepted government auditing standards.

Executive Summary

In our opinion, the County departments are performing monthly FAMIS reports reconciliations and are in compliance with the Department of Finance's policies and procedures. There are some minor exceptions as follows:

- We found that 100% of our sample of seven departments were performing monthly reconciliations. Of the 88 departments required to submit the Reconciliations Certification Forms to the Department of Finance, 73% complied or partially complied. The Department of Finance should eliminate the lengthy step-by-step Reconciliation Certification Form and develop a streamlined reconciliation certification process.
- The Department of Finance is not fulfilling ATB 020 requirements to approve, maintain, and use the plans in conjunction with their oversight duties. We recommend that the Department of Finance request updated reconciliation plans from all County departments and maintain plans.
- The Department of Housing does not have a current written reconciliation plan for the FAMIS reports. The Department of Housing should prepare a reconciliation plan and document the procedures.
- The Department of Housing's (HCD) FAMIS reports reconciliations are not being performed in a timely manner. We recommend the Department of Housing perform the monthly FAMIS reconciliations to meet the requirements of ATB 020 and any subsequent procedures. We also recommend that consideration be given to automating the process between the Tenant Accounting System & FAMIS.

Comments and Recommendations

The following comments and recommendations are directed to the Department of Finance (item 1 & 2) and the Department of Housing, (item 3 & 4).

- 1. Starting in January 1996, ATB 020-Reconciliation of Financial Transactions for Operating Agencies was implemented. Updated procedures were distributed to departments in April 1999, under DFN 020.3. We found that 100% of our sample of seven departments were performing monthly reconciliations. Of the 88 departments required to submit the Reconciliations Certification Forms to the Department of Finance, 73% complied or partially complied.**

Out of 88 departments required to report to the Department of Finance, 27 had submitted and completed the reconciliation certification form, 37 had submitted incomplete reconciliation forms, and 24 did not submit the form at all. However, our sample of departments were reconciling to FAMIS.

The Department of Finance did not follow established oversight procedures to send the departmental point of contact a written notice for non-compliance.

The Department of Finance, Accounting and Reporting Section is supposed to review and monitor the Reconciliation Certification Form for discrepancies and errors each month. If a form is not submitted within 10 days of the written notice, the Department of Finance is to notify the department Director. The majority of departments and the Department of Finance are technically adhering to paperwork requirements. However, this does not prevent the Department of Finance from completing their work. It is also not an indication whether the departments are or are not completing their reconciliations.

The Department of Finance has not followed up on the departments that did not submit the Reconciliation Certification Form. There is some confusion as to the responsibilities among the user departments and the Department of Finance with ATB 020. This is due to the Department of Finance granting undocumented verbal exceptions to some departments. These exceptions are based on the following: 1) Departments are following ATB 020 & DFN 020.3 outlined procedures for reconciling FAMIS reports. 2) The Department has an approved reconciliation plan. However, none of these verbal exceptions are listed in the ATB 020.

Recommendation

We recommend that the Department of Finance eliminate the lengthy step-by-step Reconciliation Certification form and develop a streamlined reconciliation certification process that will track department compliance. The information submitted to the Department of Finance, Accounting and Reporting Division would serve as verification of the departments completing the reconciliation in accordance with ATB 020, as well as provide departments with a means of indicating exceptions.

Department Response

The ATB020 Task Team will send a memo to departments by August 11, 2000 to address the following:

- Importance of continued monthly reconciliation
- Use of the reconciliation certification form as an internal checklist to be maintained within the department and eliminate the requirement to forward the form to Finance
- Plan for DOF to provide additional guidance

2. The Department of Finance is not fulfilling ATB 020 requirements to approve, maintain, and use the plans in conjunction with their oversight duties.

The Department of Finance designed various procedures and controls called the Reconciliation of Financial Transactions for Operating Agencies ATB 020 – 020.3 to ensure the reliability of the reconciliations reported by the departments. These plans outline how departments will reconcile their funds with the FAMIS reports. The reconciliation plans are also essential in ensuring that departments are maintaining sound internal controls over the County's financial transactions. ATB 020 – Reconciliation of Financial Transactions for Operating Agencies states that the Department of Finance is to maintain a file of agency reconciliation plans available for inspection and review.

The Department of Finance is not in compliance with ATB 020. This indicates the Department of Finance has not used the Reconciliation Plans in conjunction with the oversight of reconciliations. Accounting and Reporting Division staff were not able to provide access to plans submitted by the departments. Due to changes in personnel and past organizational restructuring, it was surmised that the plans might have been archived.

Some departments were given verbal permission to submit the reconciliation plan in lieu of the monthly reconciliation certification forms. These departments have not been required to submit the certification forms monthly to the Department of Finance.

Recommendation

We recommend that the Department of Finance request updated copies of the department reconciliation plans from all County departments, identify division responsibility, and maintain plans in a readily accessible location. We recommend department exceptions, if any, be documented in the form of memorandum from the Director of the Department of Finance. Also, subsequent revisions to ATB 020 should include exceptions granted.

Department Response

The ATB020 Task Team will take the following steps by July 2001:

- Review current guidelines for reconciliation and look at process improvements
- Review ATB020; emphasize the importance of reconciliation plans for departments and identify and exceptions
- Develop guidelines for writing department reconciliation plans to include the certification process that will track the department's compliance
- Issue a memoranda from the director to the department requiring the submission of a

reconciliation plan and offer instructional workshops

The Management Accounting Team of the Accounting and Reporting Division (ARD) will take the following steps by September 2001:

- Form a task team to review plans
- Maintain a central file in an accessible area within ARD
- Request departments to update their reconciliation plans in a Year End Memo (P&C)
- As exceptions are granted, departments will receive formal notification for the director and all exceptions will be listed in an ATB020 attachment.

3. The Department of Housing does not have a current written reconciliation plan for the FAMIS reports.

The Department of Housing did not have a reconciliation plan describing the process, forms, procedures, and individuals responsible for the FAMIS report reconciliations. ATB 020 – Reconciliation of Financial Transactions for Operating Agencies states that departments are required to submit a written Reconciliation Plan to the Department of Finance detailing the procedures that the agency will follow in performing reports reconciliation. The lack of current written procedures does not provide assurance that the FAMIS reports reconciliations being performed are in compliance with the County 's ATBs 020 & DFN 020.3.

The Reconciliation Plan was not written due to staffing issues, larger workloads and different State mandates. The Department of Housing contracted with KPMG to write some accounting procedures. The procedures were completed in January 1999; however, they were outdated before completion due to a new accounting system and revised State requirements.

Recommendation

We recommend that the Department of Housing prepare the written reconciliation plan describing procedures to comply with ATB 020.

Department Response

A current written reconciliation plan has not been prepared due to staffing issues, larger workloads and different State mandates. While this situation continues in the Finance division, the hiring of additional staff and the filling of vacant positions is currently underway. Also, during the fiscal year the Finance division plans to replace several of its specialized software packages to better organize and track financial information. A written reconciliation will be developed by April 30, 2001.

4. FAMIS reports reconciliations are not being performed in a timely manner.

For the period July 1, 1999 - December 31, 1999, seven user departments had documented and completed the monthly FAMIS reports reconciliations. The Department of Housing completed three of six monthly reconciliations. ATB 020 states that *“all agencies are required to perform reports*

reconciliation on a monthly basis, except at mid-year and third-quarter budget reviews and year-end closing.” The Department of Housing is not complying with ATB 020 Reconciliation of Financial Transactions for Operating Agencies. The reconciliation is a control to ensure that the books reflect the correct balances at a given time and that financial statements properly disclose the correct amounts. The Department of Housing considered the FAMIS reports reconciliations a low priority due to State requirements, staffing issues and workloads. They have recently hired additional staff and are working on bringing the reconciliations up to date.

Recommendation

We recommend the Department of Housing perform the monthly FAMIS reconciliations to meet the requirements of ATB 020 and DFN 020.3.

This year the HOMES online accounting system, which is used for the Department of Housing Tenants Accounting, Rental, and Public Housing is being replaced with the LYNX Accounting system. Consideration should be given to automating the process of reconciling between the Department of Housing Tenant Accounting System and FAMIS. This will eliminate errors, timing differences, and save time performing manual reconciliations.

Department Response

The hiring of additional staff and the filling of vacant positions is currently underway. Also, during the fiscal year the Finance division plans to replace several of its specialized software packages to better organize and track financial information.